ANNUAL REPORT

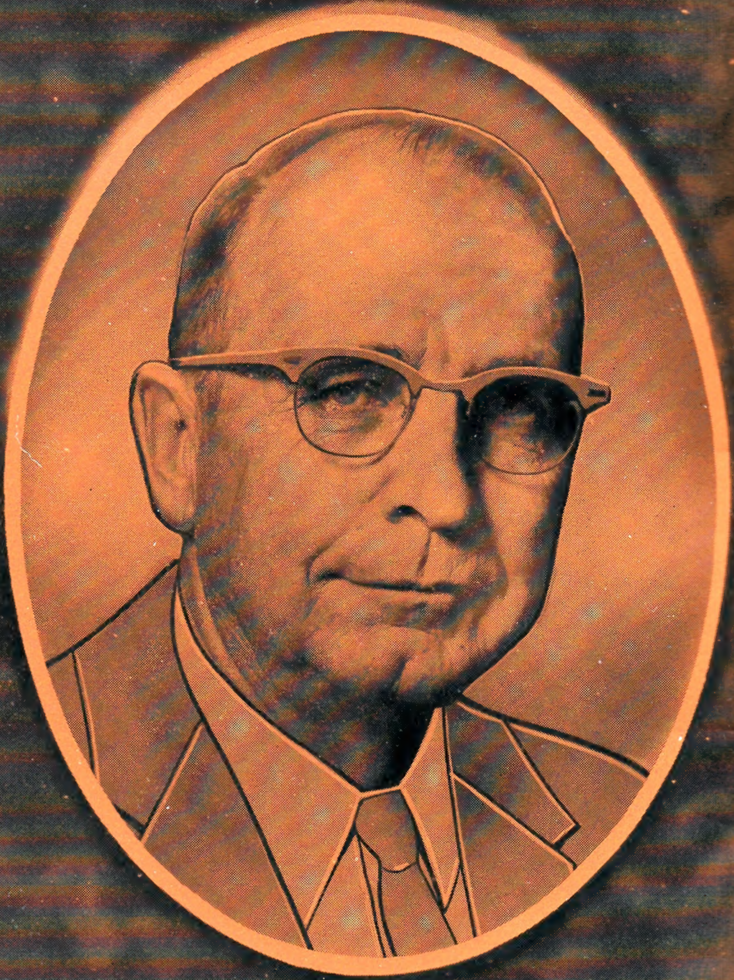
HONEGGERS'

& CO., INC.

for the Year ending June 30, 1960

HONEGGERS'
32
YEARS OF SERVICE

SAM R. HONEGGER
CHAIRMAN,
BOARD OF DIRECTORS



FRANK E. HONEGGER
VICE-CHAIRMAN,
BOARD OF DIRECTORS

CO-FOUNDERS

Annual Report

FOR THE YEAR ENDING JUNE 30, 1960

Directors

SAM R. HONEGGER,
Chairman

L. C. CUNNINGHAM, PhD
Economist, Cornell University,
Ithaca, New York

E. F. DICKEY,
President

L. H. FAIRCHILD,
Vice President

FRANK E. HONEGGER,
Vice Chairman of the Board

SHELTON MOZLEY, Vice President
Fusz-Schmelzle & Co., Inc., St. Louis, Mo.

FRED RIEGER, SR.
First State Bank, Forrest, Illinois

WAYNE SCHROEDER, Attorney
LeForgee, Samuels, Miller, Schroeder & Jackson,
Decatur, Illinois

PURVIS TABOR,
President, Tabor & Co.,
Decatur, Illinois

ERWIN C. WASCHER
Vice President

Executive Committee

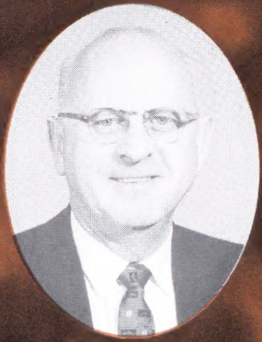
E. F. DICKEY, Chairman
Sam R. Honegger
Frank E. Honegger
Erwin C. Wascher

Officers

Sam R. Honegger,	Chairman of the Board
Frank E. Honegger,	Vice Chairman of the Board
E. F. Dickey,	President
Erwin C. Wascher,	Vice President - Operations
Elmer S. Roth,	Vice President - General Sales Manager
R. B. Concannon,	Vice President for Finance, Treasurer and Controller
Harvey S. Traub,	House Counsel - Secretary
Ray W. Steele,	Vice President - Indianola Operations
Fred Fountain,	Vice President - Green Gable Operations
Sam Kennedy,	Vice President
L. H. Fairchild,	Vice President

CONTENTS

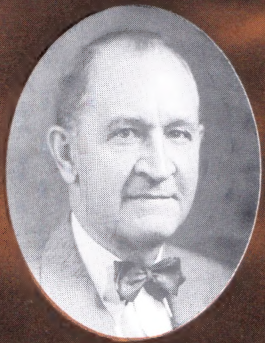
Officers and Directors


Sam R. Honegger


Frank E. Honegger


E. F. Dickey


Erwin Wascher


L. H. Fairchild

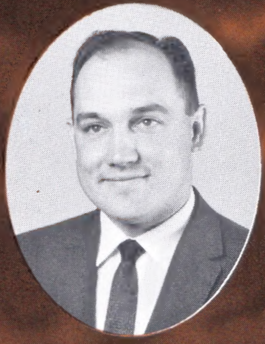

Elmer S. Roth

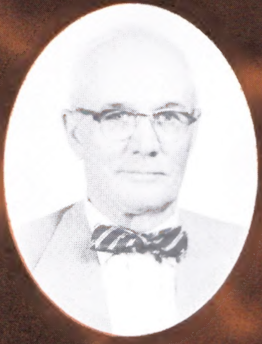

Ray W. Steele


Fred Fountain


Sam Kennedy

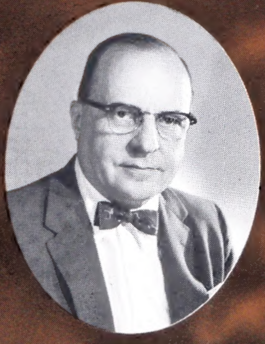

R. B. Concannon


Harvey S. Traub

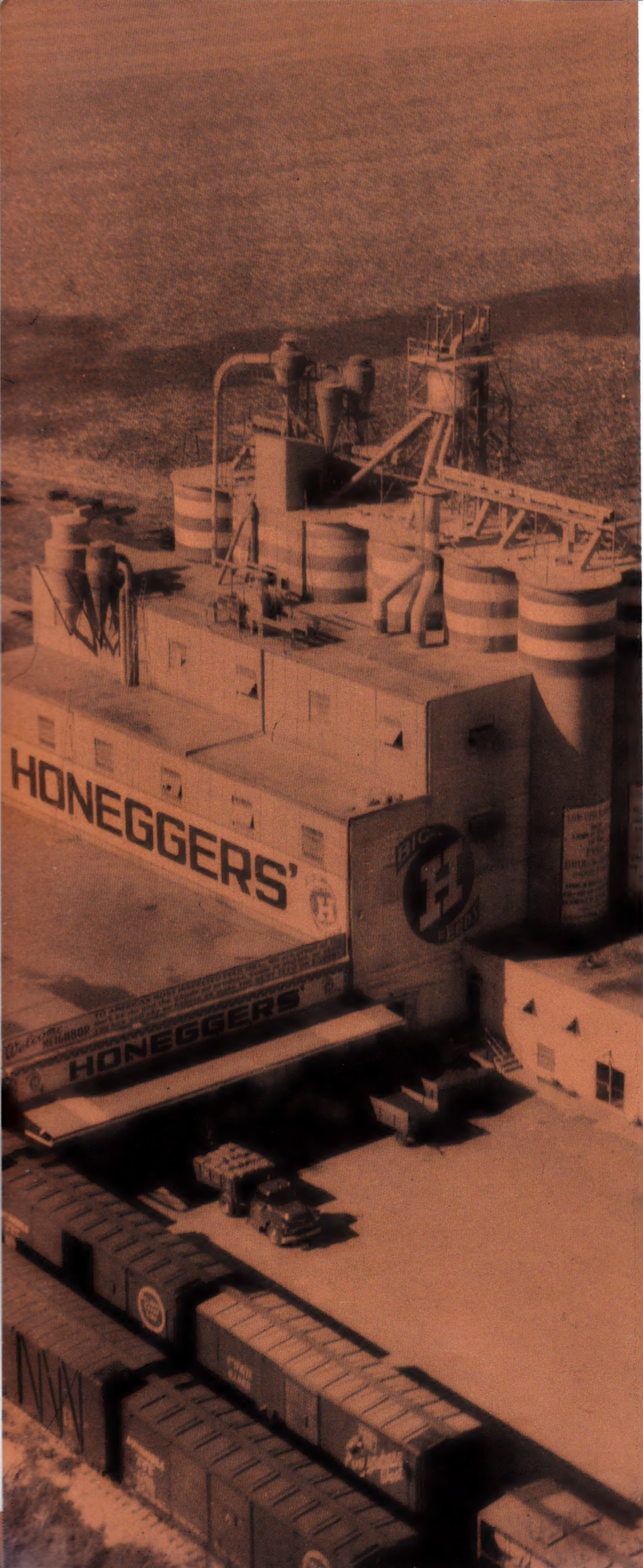

Fred Rieger, Sr.


Purvis Tabor


Wayne Schroeder


Shelton Mozley


L. C. Cunningham



The Year in Brief......

Net Sales

Dollar volume was 10.6% over the previous 5 year total, although down 17% from last year's all time high.

Sales By Product

Unit sales were down in all product groups including feed, farm buildings, and equipment. Feed was down 13%, farm buildings 35%, and equipment 2%.

Net Earnings

Profit was only 47% of the last 5 year's average and only 37% of last year's total.

Working Capital

Working capital increased by 81%, primarily through long term financing.

Net Worth

Net worth now exceeds 3 1/2 million dollars at fiscal year end.

Total Assets

Total assets of the corporation were near $7,000,000.00 at year end.

Current Ratio

Current ratio at year end was 2.46 : 1.

President's Report

E. F. DICKEY

To Our Shareholders

Generaly speaking, the past year has been a very bad year for the feed industry as a whole. For us the fiscal period ending June 30, 1960 was one of adjustment and consolidation of previous gains. It also brought to completion nearly 2 million dollars of plant renovation and new construction undertaken during the past 3 years. Naturally, it is hard to show a sizable profit during such a period.

While the statistical reports for the year just ended reflect a rather gloomy picture from a strictly "short term" view point, it must be remembered that our long range operation has been one of unusual growth with substantial profit. It has been said that "all that glitters isn't gold". By that same token one bad year in a business cycle shouldn't necessarily be considered unusual, or a matter of serious consequence. In fact, we feel that our management personnel are to be complimented for the modest profit which they have made, while some of the giants in our industry were actually losing substantial sums of money in the feed business.

With an ever exploding population growth, and with our company's modern plants and well-trained personnel, we think that future prospects are very bright for our company.

Our business is affected quite substantially by price ranges, or fluctuations, in the livestock and poultry field. While agriculture in general is not faring too well in our overall economy, animal agriculture has not shared this depressed condition, except briefly during the past 18 months in the pork and egg-producing area. It was the brief period in those areas that contributed substantially to our poor showing this past year. Rapid recovery has been made in these fields with egg prices increasing gradually and pork prices now at a very satisfactory level. We expect animal agriculture to expand rapidly during the years ahead and we expect our company to get its fair share of the additional business.

While temporary slumps, or brief periods of depressed sales affect new plants, and new sales territories, in a more apparent way than they do in areas where a business is more firmly established, we do, however, consider the new operations at Indianola, Iowa, and Lincoln, Nebraska, to be progressing satisfactorily.

Progress and profit at the Taylorville plant was disrupted from a statistical reporting standpoint by our purchasing another equipment manufacturing business in October last year. This other business, Makomb Steel Products, was enjoying a profitable operation with more than twice the dollar volume of our Taylorville plant. This business was moved to our Taylorville plant and the integration problems involved resulted in a further loss at that plant through March, 1960. Greatly improved conditions have been experienced during the final quarter.

The balance sheet and the profit and loss statement alone cannot possibly reflect the substanital gains we have made. The high plateau of sales reached during the previous fiscal period allowed expenses in many areas to increase disproportionately, particularly in view of the reduced sales volume experienced in later months. However, during the past 6 months of the fiscal period just finished, our company's operating policies were reviewed from top to bottom with a view to the elimination of expense wherever possible. This action has resulted in greatly reduced operating expenses and improved profits during the last quarter.

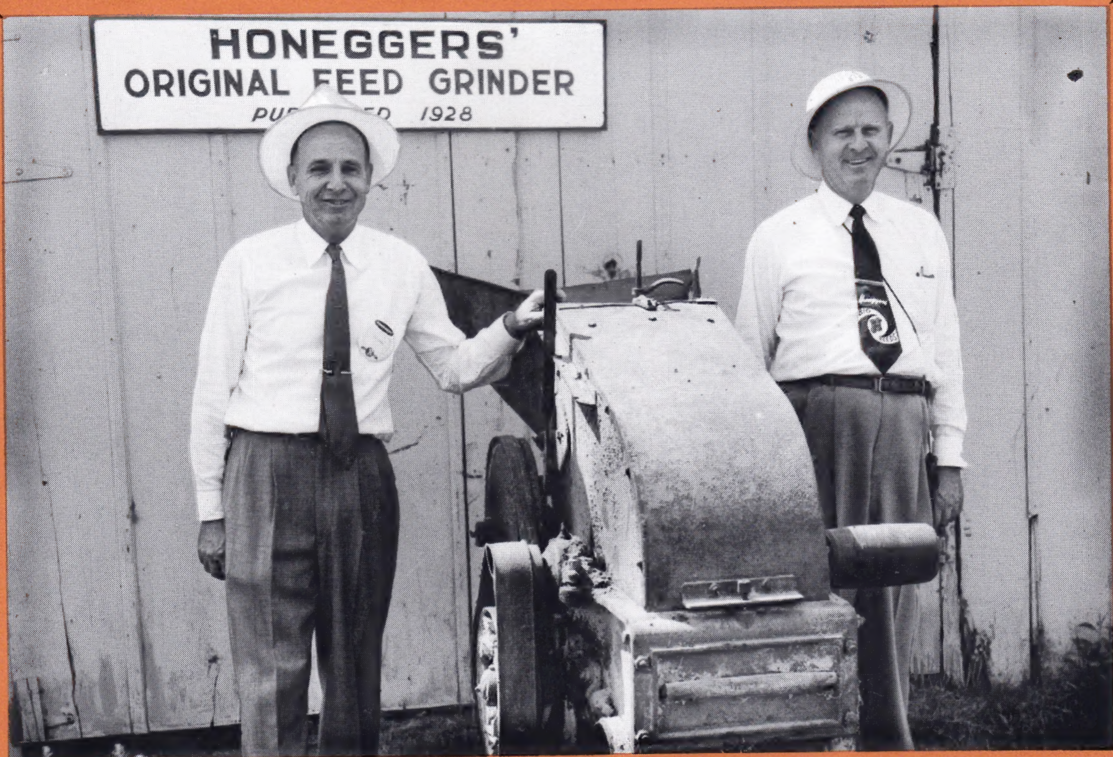
Our Board of Directors has considered our depressed earnings to be temporary and have continued the payment of stock dividends of 1½% quarterly, amounting to 6% per annum. We do not anticipate any change in their basic policy. On page 19 we have summarized the earnings of the company for the past 10 years. We invite you to note the sound progress through the years as reflected in the summary.

The operating reports and statistical data on succeeding pages reflect the soundness of our corporate financing, the current strong financial position of our company,—and the substantial earning potential im-immediately ahead.

We welcome our new stockholders to our corporate family and thank them and our other stockholders for the confidence which they have placed in us. We also thank our employees and many friends for their loyal support.

We hope that our stockholders' investments will be sound and profitable, that our employees will continue to grow and prosper in their jobs, and that our company may continue to grow in its ability to serve animal agriculture more efficiently, more effectively, and more economically.

President



A Bit of History

The multi-million dollar Honegger feed, chick, farm buildings, and livestock and poultry equipment business got its start 32 years ago when two central Illinois farm boys, Sam and Frank Honegger, borrowed a car and went to the Illinois State Fair, where they bought a new type of grinder to make feeds for their own dairy herd on their mother's farm south of Forrest, Illinois.

When the brothers started getting better results from the rations they were feeding their own cows and chickens, nearby farm folks began dropping in to get some of the feed ground with the new hammermill and mixed by Sam with a scoop shovel.

To meet the demand, the brothers erected a small feed mill on their farm, three miles south of Forrest. To the hammermill, they added a wooden churn-type mixer powered by a tractor engine.

It was an inauspicious beginning, but not a quiet one for the noisy contraption could be heard a mile away.

By 1942 the old Forrest farm mill would no longer handle the expanding busines, so feed milling equipment was installed in a livery stable across from a grain elevator in Fairbury and the two combined to make what was then a reasonably modern feed manufacturing plant. The mill burned in 1949 and a new ultra modern manufacturing unit was built on the west edge of Fairbury during that and the succeeding year.

Today their Fairbury plant, erected in 1950 is believed to be America's most inspected feed mill. Two other feed plants, one located at Indianola, Iowa, and the other at Lincoln, Nebraska, now distribute many thousands of tons of feed per month to farm customers through a far-flung dealer organization that extends from South Dakota, Nebraska, and Kansas eastward to the Atlantic ocean.

The Fairbury plant has a capacity of well over 12,000 tons per month and has actually produced more than 11,000 tons in one month during a peak

period. It is one of the first electronically controlled "push button" feed mills ever built in America. The Honegger operation is deeply involved in the poultry laying field through an associate company known as Honegger Farms Co., Inc., which is located on the 600 Acre Research Farm located three miles south of Forrest. (See story on Page 24).

Sam and Frank at first had little regard for chickens and kept only 101 hens when they were participating in the Pioneer Farm Bureau Farm Management Service some 25 years ago.

A field service man from the University of Illinois pointed out to them that a well-managed poultry laying flock would return more for the money invested than the same amount of investment in other types of farming. So Sam and Frank set about putting themselves and Livingston County farmers into the egg business.

Today over 250 Honegger Associate Hatcheries across the nation and in several foreign lands are furnished with foundation stock from the Honegger Breeder Hatchery and somewhere in excess of 19 million Honegger Chix are produced each year.

These Honegger laying birds are distributed exclusively throughout the Honegger feed trade territory by Honegger feed dealers. This strengthens the Honegger feed dealer franchise program.

Honeggers' entry into the farm buildings field a few years back came about gradually through their perfection of a practical yet scientifically designed house that helped improve flock health and improve egg production. They realized that if their laying bird and feed were to perform most efficiently that modern type housing should be provided.

Their farm buildings business was given a shot in the arm two years ago by the acquisition of Green Gable Builders, Inc., of Onawa, Iowa. Green Gable Builders were at that time manufacturing a varied line of farm structures. The line of farm buildings has been expanded until now many types of farm structures, corn cribs, grain bins, machine sheds, poultry houses, hog houses, milk sheds, etc. are offered to better serve agriculture. These products are offered, exclusively, to Honegger dealers. This also strengthens the Honegger dealer franchise program materially.

For several years Honeggers have distributed a wide line of livestock and poultry equipment, medication and specialty products designed for proper care and feeding as a management aid to farmers. A new metal prefabrication plant located at Taylorvile, Illinois, acquired in 1957 has enabled the company to introduce some two dozen Honegger-built equipment items which have been enthusiastically accepted by dealers and farmers alike. These products are offered on an exclusive basis to Honegger dealers. This again enhances and strengthens the Honegger dealer franchise program.

So from a very humble beginning, the Honegger operations have expanded into a wide variety of agricultural products and services to improve farm family income. It is believed that this diversification and integration of commercial operation is an added guarantee in providing financial stability for the firm.

It has been said that no business is any better or any stronger than the character and business integrity of the men who own it and run it. Also, it has been said that we learn to do by doing. Both of these statements apply quite directly to the Honegger operation and these two men. Both men are of strong character and of unquestionable business integrity. They have worked through the years as any other employee, on the farm, in the office, and out in the sales territories, and in every phase of the company's operation. As the company has prospered and grown into a nation-wide organization, so have Sam and Frank grown in knowledge and understanding into broad gauge businessmen with a keen perception of business matters, a thorough understanding of farming methods, a sincere compassion for the farmers problems, and a deep concern for the human side of business as it effects both employees and customers.

Naturally, the Honegger brothers have not made this great growth alone. They have found it necessary to bring in many capable executives through the years. One of these is E. F. Dickey, now President and General Manager, who joined the firm on January 1, 1949.

Mr. Dickey was elected to the Board of Directors early in 1951 and made a Vice President later that same year. In 1953 he was appointed General Manager and elected Executive Vice President in 1955. The Honegger brothers nominated him for President in December of 1958. A native Hoosier, Mr. Dickey graduated from Indiana law school in 1931 with an L.L.B. degree. He has developed a management team which during his service with the company has seen the company's feed tonnage grow from 2,000 tons per month to a high of 14,000 tons in one month. Likewise, the firm's profits have increased many times over and net worth has grown to more than 3½ million dollars.

During this same period, as a means of diversifying income and stabilizing profits, the company has broadened its activities into the manufacture, sale, and distribution of prefabricated farm buildings, corn cribs, grain bins, etc.; and into the manufacture, sale, and distribution of livestock and poultry equipment. Two modern plants have been acquired for these operations and two additional modern feed mills have also been purchased to enlarge and stabilize company profits and employees' opportunities for growth and extra compensation.

Operation's Report

MR. ERWIN C. WASCHER, Vice President - Operations, has been with the company since 1945. In 1952 he was promoted to Vice President and designated Director of Procurement and Production. He was elected to the firm's Board of Directors and was named Assistant General Manager of the company in 1955. In 1958 he was appointed to his present position of Vice President of Operations. During his 15 years with Honeggers', Mr. Wascher's duties have embraced practically every phase of company activity. This broad experience particularly qualfies him for his role as Vice President of Operations. He is responsible for the day-to-day operations of the company and for the execution of plans, policies, and programs as may be developed by the Board of Directors, the Executive Committee, or the President.

FACILITIES

GRAIN STORAGE has become an important phase of the Honegger operation. The 900,000 bushel storage unit at our Lincoln plant is completely filled with grain storage and earning a satisfactory income.

The 1,800,000 bushel storage adjacent to the Fairbury feed mill was completed about the first of this year and began filling with grain. It is now three-quarters full and will, undoubtedly, be filled within the next 30 days. In addition to the income from storage, this Fairbury unit gives us considerably more flexibility in unloading for our Fairbury feed mill, as well as grain conditioning and holding space. It will be an economically-important adjunct to the Fairbury plant during the coming years.

FEED MANUFACTURING at the Fairbury plant has continued with little or no additional capital expenditures during the past year. A considerable trend has been noted toward the shipment of bulk feeds and also the additional use of concentrates at the expense of complete feeds which, in effect, makes a reduction on total volume of feed produced. Bulk shipments have increased during the past 12 months from approximately 2½% of total volume to approximately 20% of total volume. Bulk shipments are made in several bulk trucks as well as a fleet of eight covered-hopper cars which are under long-term lease for our exclusive use.

Manufacturing at the Indianola, Iowa, feed plant has maintained a satisfactory volume. No capital expenditures for manufacturing equipment have been made at Indianola during the past year and only modest expansion or modernizing of these facilities are budgeted for the coming year.

The Lincoln, Nebraska, feed manufacturing plant has noticed a small increase in manufacturing and sales over the past months due primarily to in-sales over the past months. Due to the increase in bulk feed sales, bulk facilities need expansion at this plant. However, this does not require a substantial amount of money.

BUILDING MANUFACTURING at the Onawa, Iowa, plant has continued on a satisfactory basis without any manufacturing facilities' expension.

EQUIPMENT MANUFACTURING at the Taylorville, Illinois, equipment plant has been further expanded by the acquisition of Makomb Steel Products and the consolidation of manufacturing both lines of equipment at Taylorville. A capital expenditure was made of approximately $100,000.00 to secure some of the manufacturing equipment, as well as jigs and dies of the Makomb Co. Expanded sales of equipment during the past few months have done much to improve this phase of our business.

PERSONNEL

All plants are now operating on an "autonomous" basis with each plant manager being responsible for all phases of the activities. Sales Management, Purchasing, Traffic, Accounting, and Personnel from the Home Office act in an advisory capacity as needed or required from time to time.

Personnel training and efficiency development of plant and office personnel are available at all plants, and in-plant training sessions, as well as outside training courses, are developed and encouraged by our Personnel Manager on his regular trips to all locations.

Consolidation of several jobs and realigning of workloads have made it possible to eliminate some jobs in the past year without lowering work standards. Additional mechanization through expanded use of IBM accounting equipment has also aided in reducing clerical work in the handling of inventories and sales invoicing.

PRODUCT DEVELOPMENT

NEW PRODUCTS are the result of continued research and development. The continued trend toward larger commercial flocks of poultry has led to the development and marketing of larger poultry houses with mechanical feeding and egg-gathering equipment. The trend toward bulk feeds has added to the necessity for development and production of bulk feed handling equipment and bulk feed storage tanks. We believe these units will be economically important in our equipment sales of the future. Expanded knowledge of the need for additional vitamin and mineral fortification, as well as other advances in the Science of Animal Nutrition, has resulted in the formulation of several new feeds and the elimination of older lines. Undoubtedly, our search for new things via research and development will continue to be an important link in Honegger growth.

Sales Report

MR. ELMER S. ROTH, Vice President and General Sales Manager, through his 18 years of service with the company, has climbed the sales ladder from farm service man to retail store manager, manager of the retail department, district sales manager, division sales manager, assistant sales manager, to his present position. He grew up as a neighboring farm boy to the Honegger brothers and has developed into a hard-working, forceful sales executive. He personally pilots himself in a company plane some 600 to 800 hours per year.

PAST

Viewed in retrospect, the past fiscal period was one of sales turbulence. During the past twelve months, most of the sales department operated in the most dfficult selling climate of their career. These facts are pointed out, not as an alibi for a lower sales volume, but as an appraisal of what has happened, and as a guide for charting future action.

The twelve month period brought a new low for recent years in both egg and hog prices. Many feedlots were not filled in the fall of 1959 due to pessimism felt on the part of many cattle feeders. Competition for the business that existed was extremely keen.

This struggle for business was further intensified by the merchandising approaches of competitors. During the past year, more manufacturers have bypassed normal retail and local distribution and have sold direct to the consumer. Competition was further complicated by the increase of local "Cross Road" mills or, in many cases, sub-manufacturers building a feed line from pre-mix bases and merchandising direct to the consumer.

In some cases and in some areas, restricted credit was a deterrent to expanded sales. It was difficult at times, to determine where it was safe to use the credit that was available for the expediting of additional sales.

As this picture became apparent early in the year, a planned program to cope with it was launched. In August, more stringent and demanding assignments were given to sales personnel. This action required a tightening of belts and a more vigorous shoulder-to-the-wheel approach. It also involved a calculated risk of losing some sales personnel who could not adjust themselves to the vigorous requirements of this program. As was expected, a number of men were eliminated from the sales team. This involved men both of little and lengthy tenure. In effect, "the boys were sorted from the men". It is understood that this re-asignment and turn-over of sales personnel is not a unique problem today, but closely parallels conditions existing in many segments of today's marketing economy.

The sales team was realigned during the year to present a stronger, more effective front for the present and future merchandising efforts. In connection with this realignment, changes were made in the compensation program to encourage more individual action and effort on the part of each and every man. The success of this move is apparent, in light of increased field effectiveness per man. During the last quarter of the 1959-60 year, the average man on the field force obtained 13% more feed business than the average salesman produced during the same quarter of the previous year.

PRESENT

In the expanding national economy, agriculture, too, is on the march. Some 100 years ago, 89% of the country's population was actively engaged in agriculture. Today, approximately 10% of the people produce all the food and fiber that contribute not only to the highest standard of living ever known, but further contribute to extensive, cumbersome surpluses. This trend has developed as a result of increased technological information and application, not only in grain production, but also in livestock and poultry production.

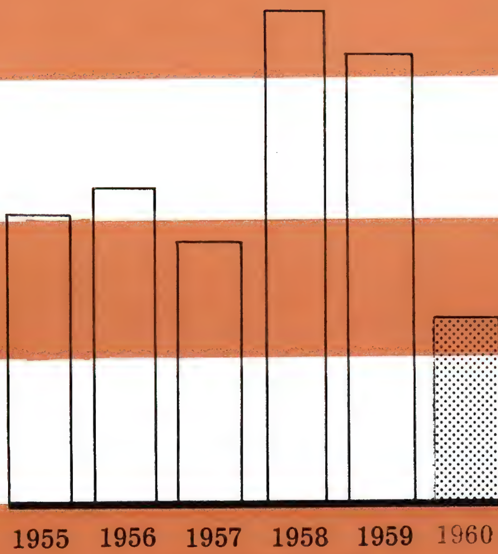
As a result of the units of agriculture production becoming larger and more efficient, all phases of agribusiness are affected. The number of customers and potential customers is decreasing and the demands for specialized treatment and service by those remaining increases.

Today's farmer, to survive must be an efficient, practical businessman, and in his role of purchasing agent, has become an exacting, demanding customer.

FUTURE

It is anticipated that during the coming decade, as many as one-third of our present farmers will be removed from business. This exodus will be forced by an extremely competitive economic condition. The "survival of the fittest" is but one more step in the agriculture revolution that is so apparent today. These master food producers and master farmers that will evolve in this coming period will be even more demanding of technical information and assistance. They will demand honest products at honest prices and will insist that these products be made available to them in the easiest, most convenient manner conceivable.

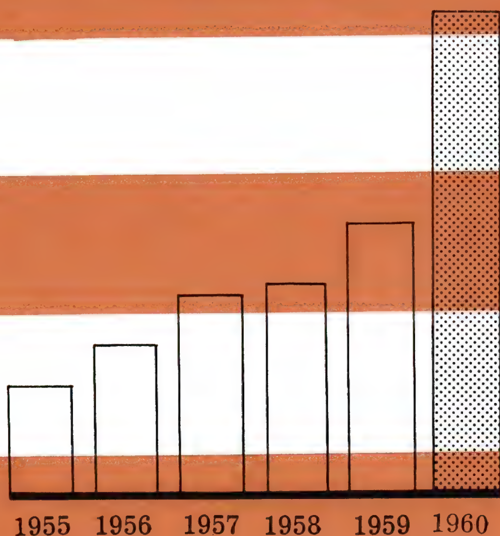
At the present time, the Sales Department is planning bold new merchandising programs that will be carried to the field by Company representatives possessing higher levels of technical training than at any time in the history of the industry.



EARNINGS CHART

. . . . . . *Earnings* . . . . . .

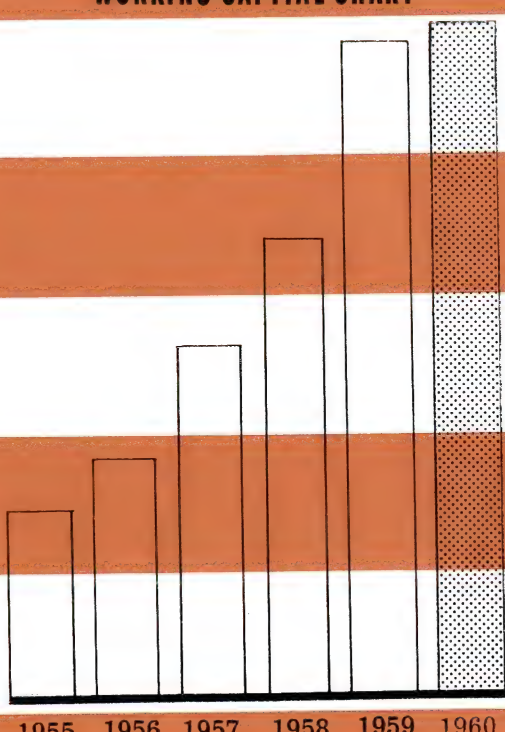
Net profit after taxes amounted to $84,323.10, down substantially from last year's all time high and also down to only 47% of the past five-year average. This, of course, is discouraging if only statistics are studied. This represents an earning of only 30c per share on the number of shares outstanding against 81c per share last year when calculated on the same number of shares, or only a little better than 2.4% on the capital and surplus invested at the beginning of the fiscal year. This, of course, is not a fair return on investment. This is the first year since the company's incorporation that the company has failed to make 10%, or more, after taxes, on the capital invested at the beginning of the year. New facilities constructed the past two years totaling close to 2 million dollars should bring profits for the year ahead to a satisfactory level. These new facilities are now producing income and should make a substantial improvement in the 1961 net. Also a substantial improvement in the price of eggs and pork should stimulate feed, farm buildings, and equipment sales and materially improve profits.



WORKING CAPITAL CHART

. . . *Working Capital* . . . .

At the close of the fiscal year on June 30, 1960, total assets of the company amounted to $6,987,859.07. Current assets of the company were $3,741,840.10, and current liabilities were $1,518,900.49, showing a current ratio of 2.46:1. The balance sheet shows working capital at $2,222,939.61. This improves effective working capital by 181% as compared with last June 30 and places our company in an excellent current position. This improvement has been made possible through long-term financing effected during the latter part of the fiscal period just closed.



NET WORTH CHARTS

. . . . *Net Worth* . . . . . .

Net worth has increased gradually through the years from profits earned and retained after taxes. Further gains have been made through corporate acquisitions in the form of tax-free mergers, and also through the sale of stock to employees and the public. Employe purchases of stock on the company's share-a-month amounted to $28,727.56 during the past year. No new stock was sold to the public. Retained earnings through the years have amounted to $1,440,606.41, of which $680,657.00 has been transferred to capital by the issuance of stock dividends. Net worth at year end stood at $3,539,853.58, which is nearly 4 times what it was just five short years ago.

.. Market Distribution ..

The company distributes its products primarily in 17 states, although some feed, some equipment, and some farm buildings are shipped into several other states at irregular intervals. However, the really large volume of the company's distribution is centered primarily in the midwest.

The past years have seen a further development of the Iowa market and a strong entry into the Missouri, Minnesota, South Dakota, Nebraska, and Kansas markets. New sales divisions organized in these new market areas have developed strongly throughout the past year. Most of the company's feed products are moved by carload dealers and many dealers have been added during the past year.

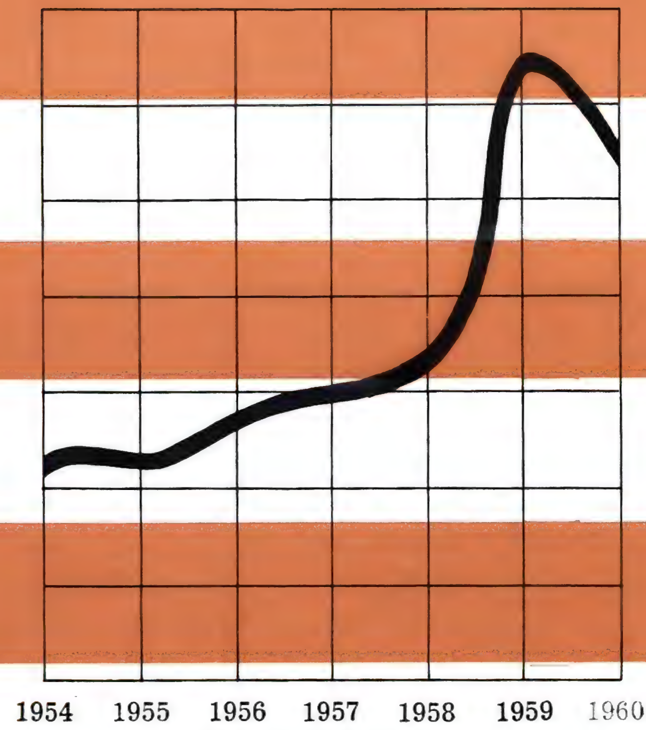
The company maintains a franchise agreement with the Mayfield Milling Company, Mayfield, Ky., for the manufacture of Honeggers' Big "H" Feeds and for the sale and distribution of the company's other products. The sales division covering Western Kentucky and Western Tennessee is making satisfactory progress. This new area will be worked aggressively during the year ahead.

.... Management ....

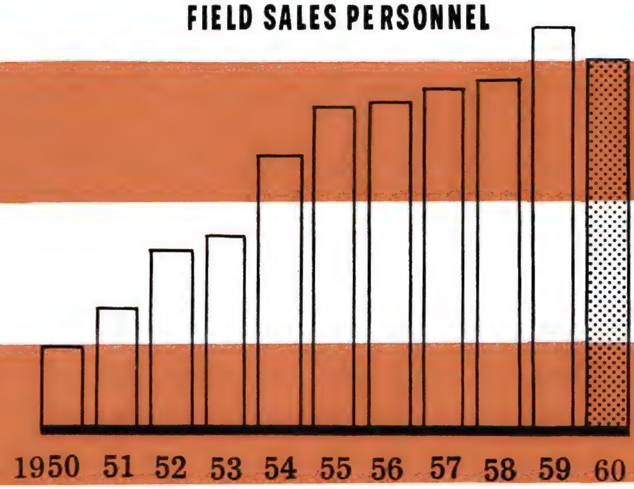
The Board was expanded by the addition of three more directors during recent years to broaden and further diversify the base of the board's knowledge and business judgment. The three new directors include a competent and outstanding lawyer, Mr. E. Wayne Schroeder, of Decatur, Illinois; an investment banker, Mr. Shelton Mozley, of St. Louis, Mo., with more than 35 years of experience in his field; and a university professor, Dr. L. C. Cunningham, of Cornell University, Ithica, N. Y., one of the nation's outstanding agricultural economists.

The company's operating management has been strengthened during the past few years with capable and well-qualified officers administering each major phase of the company's operation. Behind this staff of competent officers are well-trained department managers and junior executives. A Junior Board of Directors has been created to help develop top management thinking and planning on the part of key employees. Representatives on this Junior Board are from each major department of the company, from each of the company's outlying plants, and all of the company's officers who are not members of the Senior Board. The Junior Board meets at regular quarterly intervals, studies company problems, particularly as they apply to employees and employee relations, and makes recommendations to the Company's Executive Committee.

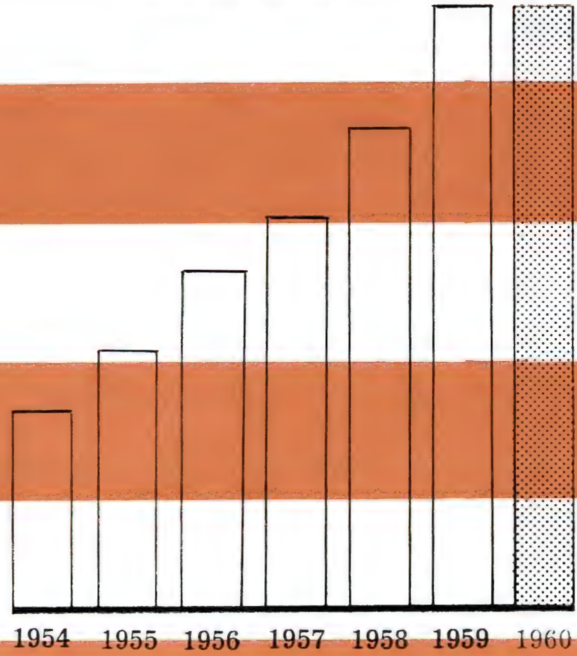
Definite programs of self-improvement are carried out in connection with developing executive skills. It is felt that this corporate structure, training program and organization gives substantial depth to the company's management.



FIELD SALES PERSONNEL

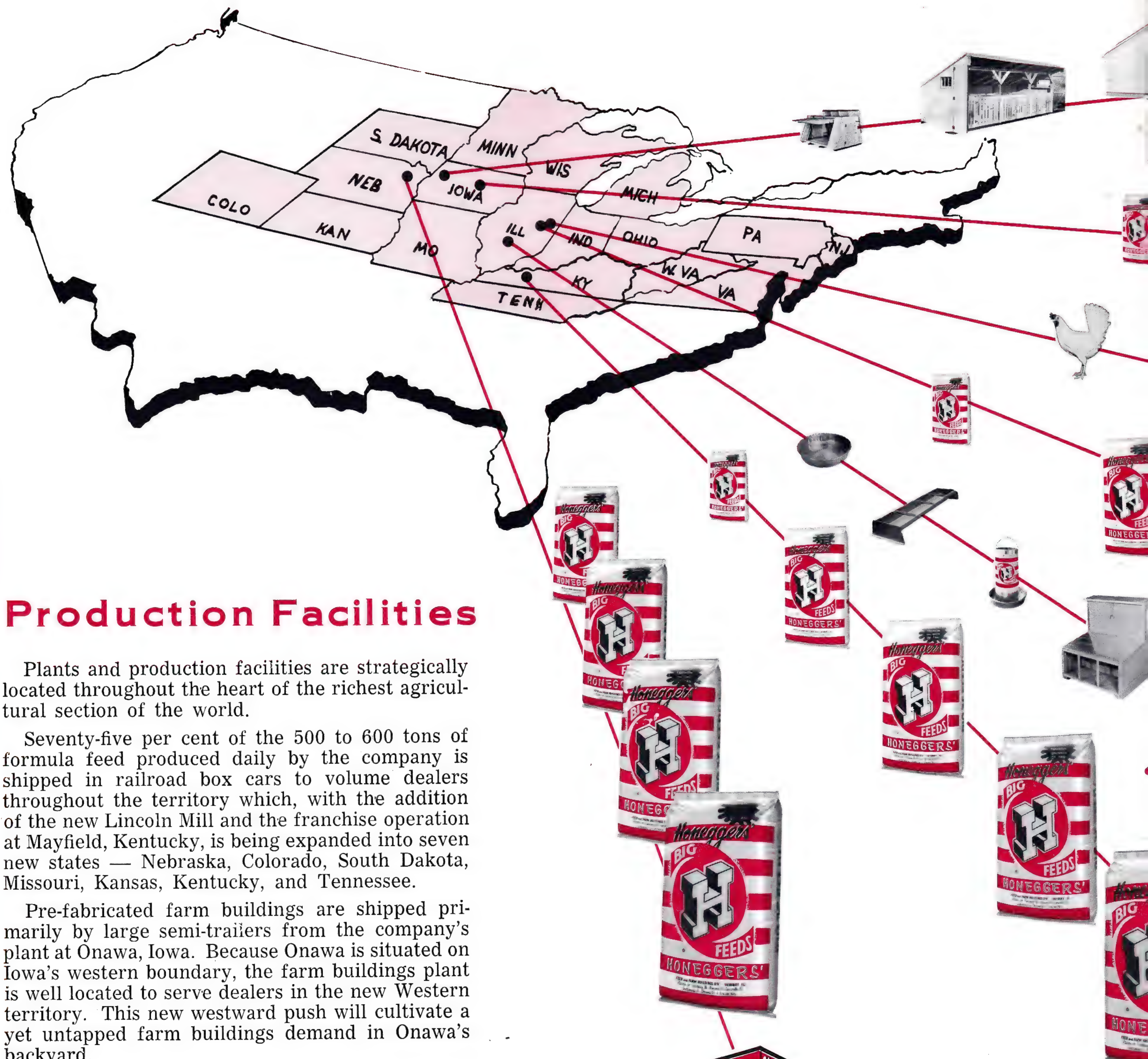


TONNAGE SALES CHART



DEALER ORGANIZATION

Serving the Heart of Agriculture



Production Facilities

Plants and production facilities are strategically located throughout the heart of the richest agricultural section of the world.

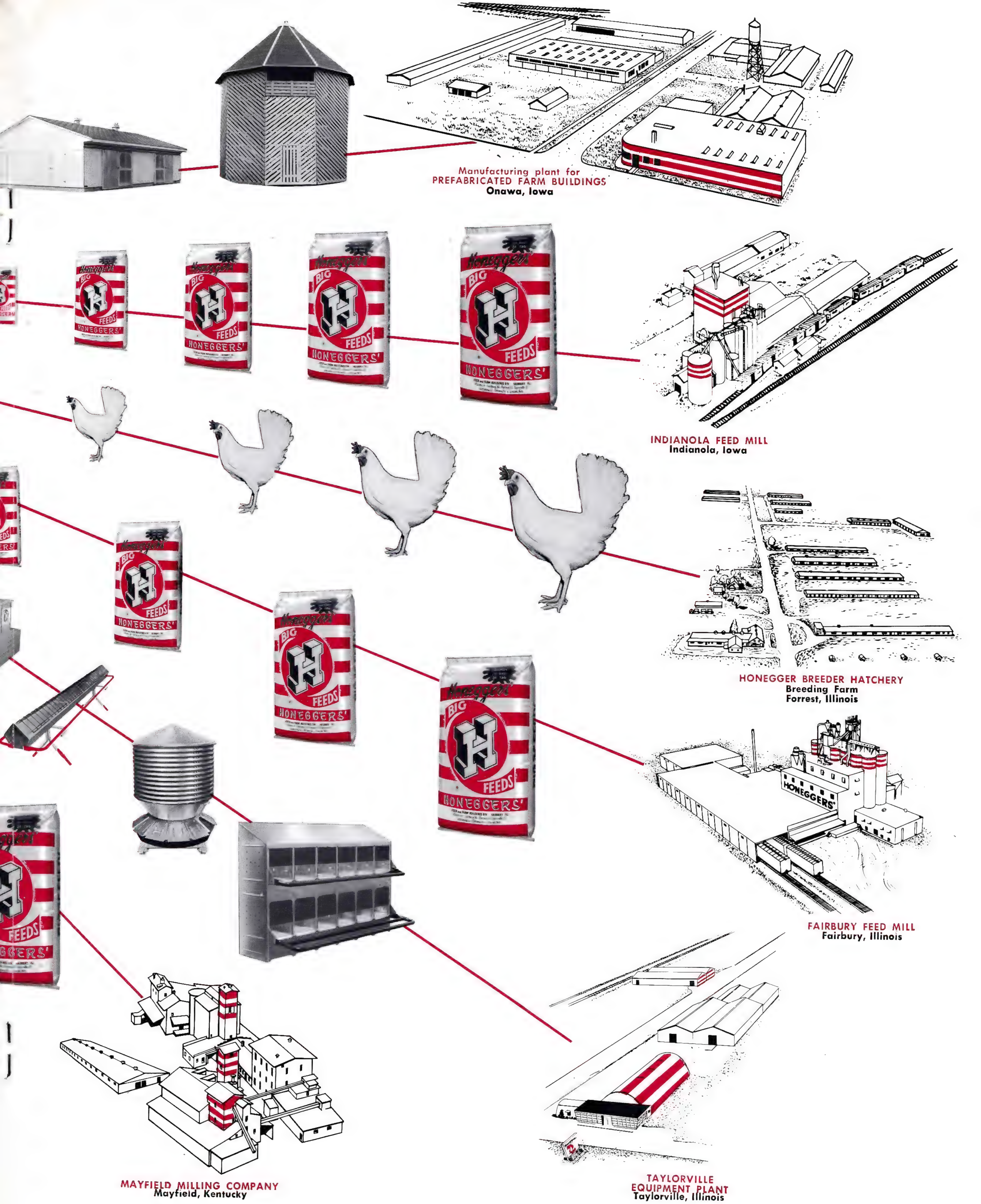
Seventy-five per cent of the 500 to 600 tons of formula feed produced daily by the company is shipped in railroad box cars to volume dealers throughout the territory which, with the addition of the new Lincoln Mill and the franchise operation at Mayfield, Kentucky, is being expanded into seven new states — Nebraska, Colorado, South Dakota, Missouri, Kansas, Kentucky, and Tennessee.

Pre-fabricated farm buildings are shipped primarily by large semi-trailers from the company's plant at Onawa, Iowa. Because Onawa is situated on Iowa's western boundary, the farm buildings plant is well located to serve dealers in the new Western territory. This new westward push will cultivate a yet untapped farm buildings demand in Onawa's backyard.

More than two dozen kinds and types of livestock and poultry equipment items are produced at Taylorville. While some deliveries are made by truck direct from the equipment plant, most of the equipment output is warehoused at the company's feed plants. The equipment is then shipped to dealers in carloads of feed. This single-source, single-shipment program is very popular among dealers.

Additional production facilities are planned throughout this midwest concentrated region to meet the ever-increasing sale of Honegger products.

LINCOLN FEED MILL
Lincoln, Nebraska


Manufacturing plant for
PREFABRICATED FARM BUILDINGS
Onawa, Iowa
HONEGGERS'
BIG
H
FEEDS
INDIANOLA FEED MILL
Indianola, Iowa
HONEGGER BREEDER HATCHERY
Breeding Farm
Forrest, Illinois
FAIRBURY FEED MILL
Fairbury, Illinois
MAYFIELD MILLING COMPANY
Mayfield, Kentucky
TAYLORVILLE
EQUIPMENT PLANT
Taylorville, Illinois

Research

DR. LOGAN T. WILSON, Nutritionist, joined Honeggers' & Co., Inc., in 1952. A member of the company's seven-man Nutrition Staff, he is responsible for formulations. Dr. Wilson is a member of the executive committee of the Nutrition Council of the American Feed Manufacturers Association. Recognized as an authority on livestock and poultry management practices, he was chairman of the council's Management Survey Committee. This group worked with college researchers; test farm personnel, and other sources in compiling standardized management recommendations which were published for the benefit of the feed industry and the farmers it serves. His work in livestock nutrition, animal diseases, and milk composition has been published in a number of scientific journals and he is a regular contributor to farm magazines.

Research at the 600-acre Honegger Research Farm is an essential part of the Honegger feed manufacturing and merchandising programs.

The production of manufactured feeds has progressed a long way from the original business of mixing together several common grains and by-products. It now involves a great variety of minerals, vitamins, drugs, anti-oxidants, etc., many used in minute amounts, as well as dozens of other ingredients which make up the feed formula.

The production of an increasing variety of feeds for specific purposes, which are now involved in the feed business, requires much investigation and experimental work. This is the main function of our nutrition staff, our experimental farm, and research and control laboratory. By the use of these facilities our company is able to maintain a leading position in providing feeds which help to make our farmer customers some of the most efficient producers of livestock products.

How this research is developed and applied can be indicated by some examples. One is the development of low cost complete rations for laying hens. Formerly, most laying hens were given a combination of a laying mash, farm grains and oyster shell, all fed separately. The use of automatic feeders and also the keeping of layers in cages makes this system of feeding inconvenient. Through research at Honeggers' we have been able to develop a low cost efficient complete laying ration. We have also produced concentrates to combine with large proportions of local grains, to make locally mixed complete laying rations. Thus we have made it possible for poultrymen to use the latest developments in labor saving equipment and still keep down the cost of feed.

Another important field of work of this kind is the development of life-cycle feeding programs for swine raised in confinement. The recent trend in swine production is toward intensive operations, where the animals are confined to paved lots. We have done extensive experimental work on gestation and lactation rations for brood sows, anemia control and creep feeding of nursing pigs, and dry lot feeding of growing and fattening pigs. This has enabled us to offer feeds and recommendations especially adapted to intensive confinement programs, as well as other swine raising methods.

Beef cattle feeding is becoming more important in our research program. By using identical twins in cattle feeding experiments we have been able to enlarge the scope of this work with only a small increase in labor and facilities.

Tours of our company's many interesting facilities continue to be one of our most effective means of promotion. The research farm is one of the chief attractions for bringing in visitors for these tours.

PRODUCT CONTROL

Product Control is closely related to research and development. One phase of product control is using the results of research in making up all of the many feed formulas used at our different mills. This also includes supplying mixing formulas for local dealers who make up locally mixed feeds from our mixing concentrates and blends.

Laboratory checking of feed production operations is another phase of product control. This involves (1) reading of production weigh scale tapes, (2) examination and analyzing of samples of manufactured feeds and purchased ingredients, (3) supervision of mixing of premixes containing vitamins, trace minerals and drugs, and inventory control on these products. Product Control of all feed mills is centralized at the Fairbury office and Laboratory.

It takes a lot of people and a lot of money to keep abreast of today's rapid developments in animal nutrition. The Company has spent $84,000.00 during the past year on nutritional research and control. While this seems like a lot of money, it amounts to less than 1.7c per bag of feed produced. The company plans to continue this vital phase of its operation. It is believed that this will aid in maintaining the company's position of leadership down through the years.

Better Feed for Better Food

...at Less Cost

and Development

Above Center — Modern laboratories are essential in today's complex feed formulation.

Upper Left — First experimental building of a great research center.

Upper Right — Gram weights tell an accurate story in Broiler feeding experiments.

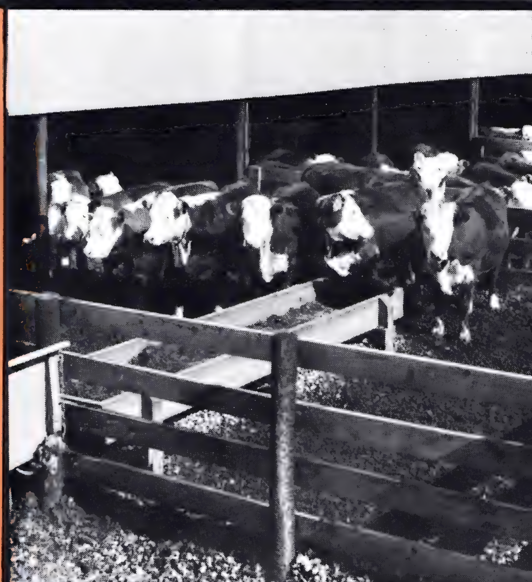
Left Center — Expansive Swine pasture tests require much field equipment.

Right Center — Cattle research has pointed the way to cheaper beef.

Lower Left — Thousands of pigs and vast facilities are utilized for dry lot swine feeding research.

Lower Right — The net result of research dollars, better feed for better food — at less cost

Lower Center — Aerial view of 600 acre research farm.



SOME OF OUR PRODUCTS

Restated Income Summary
10 Year Analysis

Year Ended June 30	Sales	Expense	Profit	Fed. & State Inc. Tax	Net	% Earned on Capital invested at beginning of each Year	Earnings per share*
1951	$ 6,335,322	$ 481,393	$248,029	$117,274	$130,755	17%	.46
1952	8,835,135	944,063	184,000	93,896	90,104	10%	.32
1953	8,695,871	1,072,213	233,640	122,758	110,882	11%	.39
1954	10,145,402	1,111,145	245,089	132,191	112,898	18%	.40
1955	11,476,889	1,312,948	291,318	146,002	145,316	17%	.51
1956	10,623,452	1,569,725	288,203	130,783	157,420	17%	.56
1957	11,579,573	1,861,614	284,057	152,736	131,321	10%	.46
1958	12,540,968	2,774,043	541,466	292,259	249,207	14%	.88
1959	17,006,458	4,288,838	552,886	324,026	228,860	10%	.81
1960	13,989,052	4,093,862	160,923	76,600	84,323	2.4%	.30

*Adjusted to basis of 282,402 shares outstanding on June 30, 1960

AUDITORS' CERTIFICATE

To the Board of Directors,
Honeggers' & Co., Inc.,
Fairbury, Illinois

Decatur, Illinois
July 28, 1960

Gentlemen:

We have examined the Consolidated Balance Sheet of Honeggers' & Co., Inc., and its wholly owned subsidiary, as of June 30, 1960, and the related Consolidated Statements of Income and Retained Earnings. Our examination was made in accordance with generally accepted auditing standards and therefore included all tests of the accounting records and other procedures which we considered necessary in the circumstances.

In our opinion, the accompanying statements present fairly the consolidated financial position of Honeggers' & Co., Inc., and its wholly owned subsidiary at June 30, 1960, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Very respectfully yours,
(s) Murphey, Turnbull & Jones
Certified Public Accountants

CONSOLIDATED BALANCE

MR. R. B. CONCANNON, Vice President for Finance, joined the company as Controller in January, 1957. He was elected Treasurer in March, 1958, and Vice President in July, 1958. He was treasurer and controller for his previous employer, and prior to that was Senior Accountant for a national public accounting firm. Mr. Concannon holds a Bachelor of Science degree from the University of Iowa and a C.P.A. certificate from the University of Illinois. His varied financial and administrative experience makes him ideally suited for his present responsibilities which include all phases of finance management at Honeggers, including treasury, control, general accounting, IBM accounting, internal security, budgeting.

Assets

	1960	1959
Cash	$ 173,013.24	$ 112,676.62
Receivables, less allowance for losses, and less acceptances discounted with recourse 1960, none; 1959, $222,132.26 (Note 1)	1,929,012.98	1,365,749.16
Inventories (ingredients and grain at purchase market; other materials at lower of cost or market)		
Feed, meal, ingredients and grain	510,487.22	406,284.23
Resale buildings, equipment and materials	1,066,006.83	1,093,002.07
Prepaid insurance and other expense	63,319.83	51,971.35
Total current assets	$3,741,840.10	$3,029,683.43
Investments, at cost	14,969.70	16,669.70
Property, plant and equipment, at cost less accumulated depreciation	2,933,279.64	2,219,060.66
Other assets		
Development costs, net	33,363.02	52,486.05
Deferred loan expense	31,511.93	0
Cash surrender value of life insurance	59,459.15	47,932.78
Notes and contracts, non-current	173,435.53	136,547.77
	$6,987,859.07	$5,502,380.39

The accompanying notes are an integral part of this balance sheet

Liabilities

	1960	1959
Accounts payable, trade and associated companies	$ 276,043.15	$ 225,752.79
Notes payable	905,300.83	0
Current maturities on term notes payable and contracts	38,156.00	240,956.00
Provision for Federal and state income taxes (Note 3)	62,400.00	251,159.48
Salaries and wages	38,805.31	113,380.22
Contribution to Employees Profit Sharing Trust	0	33,826.85
Accrued merchandise premium expense	89,957.15	103,897.41
Accrued other liabilities, including payroll and property taxes	108,238.05	93,629.69
Total current liabilities	$1,518,900.49	$1,062,602.44
Term liabilities, less current maturities shown above (Note 4)	1,919,405.00	982,961.00
Deferred income taxes (Note 3)	9,700.00	0
Total liabilities	$3,448,005.49	$2,045,563.44

STOCKHOLDERS' EQUITY

Capital stock, common, no par value (Note 6)

	1960	1959		
Shares authorized	500,000	500,000		
Shares issued	282,402	265,526	$2,409,012.08	$2,125,416.52

	1960	1959
Paid-in surplus	327,943.81	327,943.81
Received for treasury stock sold, in excess of cost	42,948.28	42,948.28
	$2,779,904.17	2,496,308.61
Retained earnings	759,949.41	960,508.34
Total stockholders' equity	$3,539,853.58	$3,456,816.95
	$6,987,859.07	$5,502,380.39

EARNINGS

Comparative Statement of Consolidated Income

	Years ended June 30, 1960	1959
Sales, gross	$13,989,051.72	$17,006,458.15
Less, deduction for freight, returns, allowances and discounts	481,646.92	587,892.68
Net sales	$13,507,404.80	$16,418,565.47
Cost of goods sold	9,558,629.05	11,726,799.37
Gross profit	$ 3,948,775.75	$ 4,691,766.10
Other income	306,009.37	225,025.08
Total income	$ 4,254,785.12	$ 4,916,791.18
Manufacturing, trucking, research, selling and general administrative expense	4,093,862.02	4,363,905.26
Operating profit before tax	$ 160,923.10	$ 552,885.92
Federal and State income taxes (Note 3)	76,600.00	324,025.69
Net income	$ 84,323.10	$ 228,860.23

Comparative data used herein are taken from our report for the preceding year after reclassification of items to conform with the current year.

Statement of Retained Earnings

Year Ended June 30, 1960

RETAINED EARNINGS, June 30, 1959		$ 960,508.34
Add, net adjustment resulting from examination of prior year's tax returns by the Internal Revenue Service		1,895.81
Less, adjustment of beginning grain inventory		9,642.36
RETAINED EARNINGS, as adjusted July 1, 1959		$ 952,761.79
Add, net income, year ended June 30, 1960		84,323.10
Less, dividends paid during the year		
In stock	$ 254,868.00	
In cash	22,267.48	277,135.48
RETAINED EARNINGS, June 30, 1960		$ 759,949.41

Notes to Auditor's Statement

1. RECEIVABLES:

At June 30, 1960 approximately 9% of the total receivables of the Company was represented by one contract. Subsequently, the Company purchased a stock interest of 12.7% in this customer and certain officers of the Company have interests therein.

2. MERGER OF SUBSIDIARY:

At February 29, 1960 Makomb Steel Products Corporation (formerly Power Scoop Corporation) a wholly owned subsidiary was merged into the parent company. This merger made available to the parent for income tax purposes an operating loss carry forward in the amount of $182,285.83, based on returns as filed by the subsidiary for its fiscal years ended, April 30, 1956, $38,418.65, April 30, 1958, $4,704.58, April 30, 1959, $51,304.62, and February 29, 1960, $87,857.98. Unused net operating losses may be carried forward to the five taxable years subsequent to the year of the net operating loss. Of the total available, $65,367.00 has been used to reduce taxable income for the year ended June 30, 1960, giving a tax benefit of $33,991.00.

3. INCOME TAX STATUS:

The Federal income tax returns of the parent company have been examined through the fiscal year ended June 30, 1959. All adjustments resulting from these examinations are reflected in the attached statements. The returns for the wholly owned subsidiary, and for the former subsidiary which merged into the parent company at February 29, 1960, have not been examined. The current year's tax liability reflects the effect of the following:

1. The net operating loss carry-forward of Makomb Steel Products Corporation in the amount of $65,367.00 is applied.
2. Accelerated depreciation on grain storage facilities resulting in an additional deduction of $18,606.68 is taken. A provision for deferred income tax in the amount of $9,700.00 has been established to provide for additional taxes which will result from reduced depreciation allowable in future years.
3. The reduction in current year's taxable income arising from the adjustment of inventory of the prior year in the amount of $14,142.36 is taken. The tax reduction of $4,500.00 arising from this charge is used to reduce the adjustment to retained earnings.

4. TERM LIABILITIES:

The cash surrender values of life insurance of $39,579.70 and certain plant, property and equipment with unrecovered costs of $232,823.43 are pledged as collateral for $111,625.00 of term liabilities. On April 15, 1960 the Company entered into a loan agreement with the Teachers Insurance and Annuity Association of America and the Home Life Insurance Company for $1,800,000.00. The agreement is evidenced by notes bearing interest at 6% and payable in annual payments of $130,000.00, due April 15 of the years 1962 to 1974 inclusive, and on April 15, 1975 a final installment of $110,000.00. The notes are unsecured, but the agreement does include certain restrictive covenants.

5. CONTINGENT LIABILITY:

The Company is contingently liable under certain salary continuation plans and agreements with its officers to purchase, after death, the Company capital stock owned by them. The maximum liability of the Company is covered by life insurance carried on each officer, except in one instance where the maximum liability of the Company exceeds the amount of insurance carried by $20,600. The Company is also contingently liable under a salary continuation agreement, to the beneficiary of a deceased former employee, in the total amount of $5,666.81 payable at $333.33 per month.

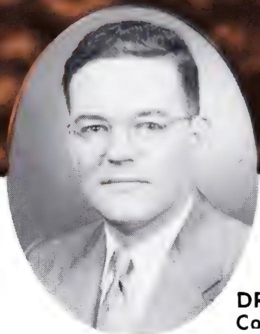
6. EXECUTIVE STOCK OPTION PLAN:

On January 13, 1959, the Company reserved 24,000 shares of its common capital stock for an executive stock option plan. The aggregate number of shares available under the plan and the maximum number of shares which may be optioned to any employee is to be adjusted by reason of stock dividends, split-ups, recapitalizations, mergers, consolidations, reorganizations or liquidations. The option price is 90% of the fair market value on the date the option is granted.

On January 13, 1959 options were granted to certain employees to purchase 19,800 shares at $15.975 per share. Purchases of the optioned stock may not be made prior to January 13, 1961, and are not to exceed 10% of the total stock optioned annually for seven years thereafter; the remaining 30% may be purchased during the eighth year.

Affiliation with

Honegger Farms Co., Inc.



DR. GEORGE GODFREY, Vice-President and Assistant General Manager, joined Honegger Farms Co. in 1955 as Geneticist and Director of Research. In 1956, he was named Executive Director of the Breeder Hatchery Division and promoted to his present position during June, 1958. Nationally recognized in the field of poultry genetics, Dr. Godfrey came to Honeggers' with a background steeped in scientific poultry breeding techniques and genetic research. He has authored or co-authored more than 30 scientific papers and written numerous popular articles on poultry subjects. Since he became affiliated with Honeggers', the number of associate hatcheries producing Honegger Layers has doubled and chick production has been increased similarly.

The Breeder Hatchery Operation

To supply its dealers with an outstanding chick for "complete package" selling, Honeggers' & Co., Inc. is affiliated with Honegger Farms Co., Inc., producers of the nationally famous Honegger Layer. With Headquarters at the 600-acre Honegger Research Farm near Forrest, Ill., the "Farms Company" was split off into a separate corporation in 1953.

In addition to its hatchery operations, Honegger Farms Co., Inc., operates retail farm service stores at Fairbury and Forrest, as well as a custom feed mill.

Several years ago, after testing well over 100 strain-cross combinations, a new Honegger Layer was introduced to poultrymen across the country. This outstanding layer met with considerable success and produced outstanding profits for poultrymen.

Since then Honegger geneticists have improved the original strain cross through the process of reciprocal recurrent selection—breeding the parental lines for increased "nickability". Several generations of this type of selection have resulted in an even better bird today, the 1961 model Honegger Layer—a superior egg producer which will yield greater profits for the poultryman under almost all management conditions.

Any model Honegger Layer is put through one of the most thorough testing programs in the poultry industry. It is tested and retested on Honeggers' 600-acre central research farm. Then it is sent to the field for more stiff testing under varying farm management conditions. Honegger Layers have proven themselves truly superior.

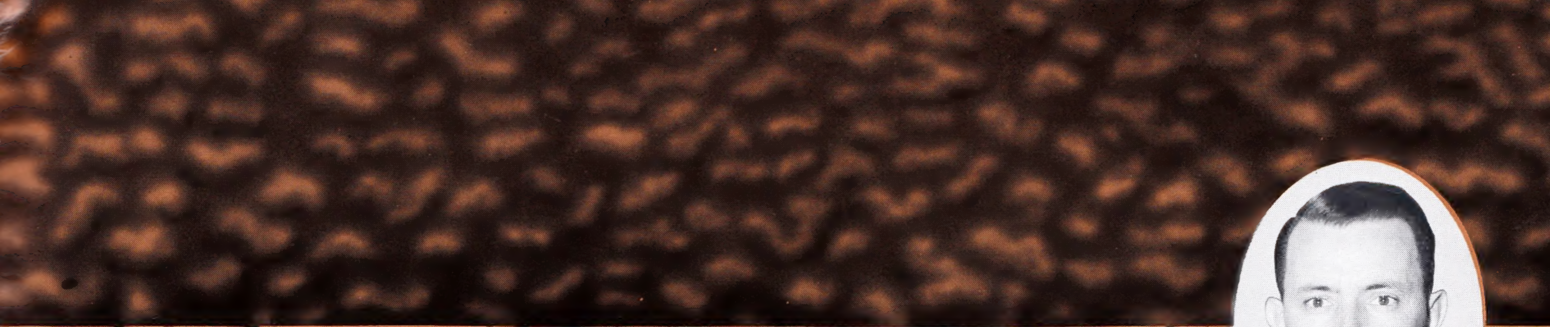
Associate Hatchery Plan

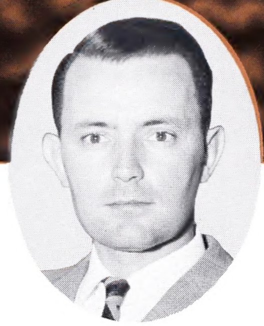
Although Honegger Chix are distributed exclusively by Honeggers' & Co. dealers through the mid-west and parts of the east, the demand for this outstanding bird has reached international proportions. Foreseeing the importance of strong, national brand acceptance and localized service, Honeggers' launched its "associate hatchery plan" in 1952 with the formation of its Associate Hatchery Department. Independently-owned hatcheries were authorized to hatch and sell Honegger Layers in assigned territories. These carefully screened associate hatcheries are furnished with foundation breeding stock direct from Forrest each year.

The Associate Hatchery plan appealed to hatcherymen. They got a nationally famous laying bird and were able to invest more time and money in better production and customer service. The most difficult and expensive tasks—research, advertising, and promotion—are handled more effectively and, on a per chick basis, far more economically by Honeggers' than would be possible by the individual hatcheryman.

Through the years, Honegger layers have compiled a remarkable record in official standard egg laying tests, random sample tests, and in farm performance tests. Honegger Layers entered in the Standard Florida National Egg Laying Test won the 1956 National Championship producing 305 eggs per pullet housed in 350 days with 100% livability. In 1957-58 and in 1958-59 official random sample tests Honegger Layers returned over three dollars per bird over feed and chick costs. In current tests Honegger Layers continue their outstanding performance. For example, Honegger Layers won first place in the 3rd Tennessee random sample test completed in March, 1960.

DR. CLETIS WILLIAMS, Poultry Geneticist for Honegger Breeder Hatchery, joined the company in October, 1956. Working with Dr. Godfrey, Williams is responsible for the fantastically complex mating program through which foundation birds are improved each year to make better Honegger Layers available to poultrymen year after year. Dr. Williams has authored more than a dozen scientific papers, half of them in collaboration with Dr. Godfrey while both were on the same team in Oklahoma. Their teamwork at Honeggers' has produced equally significant progress for the poultry industry, with Honegger Layers averaging ten more eggs per bird since these two scientists joined the company staff.





DR. W. GREGORY CLARK, General Manager of Honeggers' newly established International Division, joined the company in November, 1959. Clark is responsible for sales and technical service of the Honegger Layer in all areas of the world except the United States and Canada. Dr. Clark has a V.M.D. degree from the University of Pennsylvania and has had further training in poultry pathology at Oregon State College and at the Armed Forces Institute of Pathology. He has been in charge of poultry diagnostic laboratories at Tunkhannock, Pennsylvania, and in Havana, Cuba. Recently, Clark managed a large commercial egg production farm in New Jersey. He has done considerable traveling and is conversant in several languages.

In recently completed farm performance tests 22 flocks of the 1961 model Honegger Layer averaged 255 eggs per bird for twelve months of lay; 7 flocks under good management averaged 266 eggs per bird for twelve months of lay.

The official egg laying contests, conducted with U.S.D.A. sanction by various state agricultural colleges, have convinced poultrymen that chicks are worth little more than the research behind them. The exceptional standings of Honegger Layers, and resourceful exploitation of their championships in these competitive demonstrations plus their outstanding performance on farms across the country have put the spotlight of national prominence on Honegger Layers.

As a result of the proven profitability of Honegger Layers the demand for Honegger Chix has increased greatly. Thus the fruits of intensive and expensive research have paid off. Honeggers' strong emphasis on research and an early start in establishing its associate hatchery program have been responsible for the phenomenal growth of Honegger Farms Co.

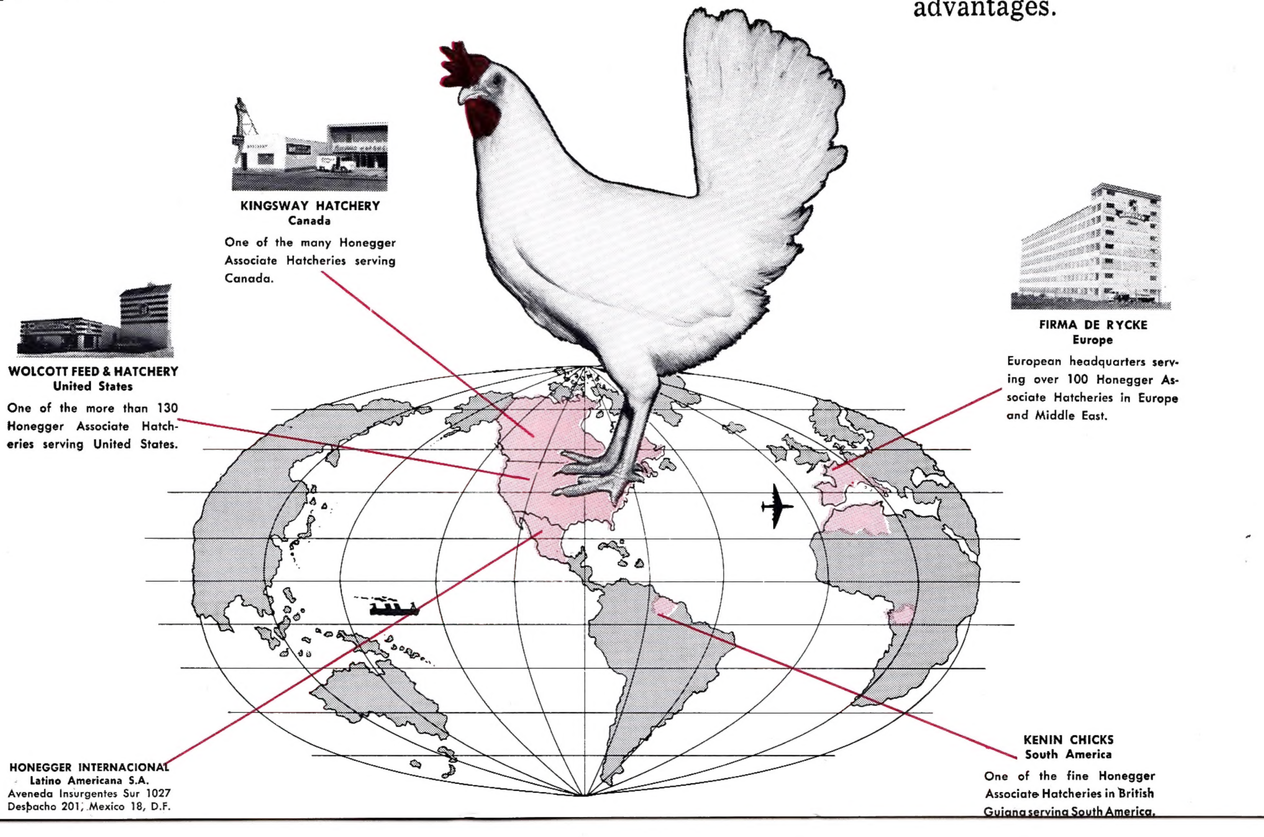
Honegger Chix Continue in Good Demand

Sales were down for the year because of depressed egg prices but were above the industry average. Honegger Layers are now produced by 237 Associate Hatcheries in 18 countries of the world located on four continents.

Far from resting on past laurels, the research and breeding program, to produce an even better bird, continues day and night. For example, their research budget for 1960-61 is nearly $250,000.00; it includes work with more than 100,000 pedigreed chicks from 500 individual male matings, more than 25,000 trapnested layers, and about 22,000 layers being tested in 62 different locations.

Each year progress is made. Each year Honeggers' goal of 300 eggs per bird and 95% livability gets closer.

Cooperation between Honeggers' & Co., Inc. and Honegger Farms Co., Inc., lowers selling, advertising, sales promotion, public relations, and other costs for both firms and results in many other mutual advantages.



HONEGGERS'

DEDICATED TO AN IMPROVED ANIMAL AGRICULTURE

NO OTHER FIRM HAS ITS ROOTS MORE DEEPLY IMPLANTED IN THE GOOD EARTH NOR ITS INTERESTS MORE CLOSELY TIED TO THE WELFARE OF PRACTICAL FARMING.

Better Feed for Better Food ...at Less Cost